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## **Super Selectos: Winning the war against multinational retail chains.**

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## **Super Selectos: Winning the war against multinational retail chains.**

### **Abstract**

This case describes how Super Selectos, a local food retail chain from El Salvador, has succeeded in competing against Walmart, the number one food retailer in the world. The case has been structured to facilitate a discussion of competitive strategy and positioning in the food retail industry in emerging markets. It provides enough information for the reader to understand the differentiation strategy that allowed Super Selectos not only maintain but to increase its market share after Walmart entered its domestic market. The goal of the case is to illustrate how a well formulated and executed strategy allows outcompete even the most resourceful rivals, providing insights into the development of the food retail industry and consumer segmentation in developing economies. The case provides the basis for discussing the strategic options that Walmart has in the Salvadorian market and illustrating the challenges that large multinational corporations face when they entering new emerging markets.

**Key words:** food retail, business strategy, emerging economies, domestic companies, MNCs

### **Super Selectos: winning the war against multinational retail chains.**

The morning of March 3, 2011, after listening to a radio announcement promoting the Super Selectos stores, Carlos Calleja, Vice-president of this Salvadorian supermarket chain, met with his management team to discuss a latent threat: Walmart. Walmart Central America, a division of the world's largest retailer, had just announced plans to implement its global strategy in the region: to brand its stores as Walmart and offer everyday low prices to its clients. By then Walmart was the dominant player in each country of Central America with the exception of El Salvador. It was only a question of time before the largest company in the world leveraged its expertise to capture the Salvadorian market. Despite the fact that Super Selectos owned 84 retail stores, 51% of the market and close to US \$600 million in annual income, continuing as El Salvador's number one supermarket would be a very tough challenge. After analyzing the situation, Carlos and his team asked themselves what measures they should take to continue winning the battle in the local market, as they had done up until that point.

### **Economic, Political and Social Situation**

In the year 2010 the Central American region grew by 4.4% with Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panamá experiencing growth rates of respectively 2.9%, 3.7%, 1.4%, 3.6%, 4.7% and 7.5%. (See Table 1) (IMF, World Economic Outlook 2011).

TABLE 1 HERE

El Salvador was the fourth largest economy in the Central America (CA) and Panamá region, after Guatemala, Costa Rica and Panama. In 2010 its GDP reached US \$21.2 billion, approximately US \$3,400 per inhabitant. According to the Central Bank, one of the country's main sources of income was family remittances from the US that reached US\$3.5 billion in 2010, a 2.2% growth over 2009.

Latin America's average inflation rate in 2010 was 6.5%. Most countries faced increased inflation from 2009 due in large part to an increase in food and beverage prices. El Salvador's inflation equaled 2.1%, one of the lowest rates in the region. However, consumers had to deal with an almost 7.9% increase in the price of food (corn and beans) and a 3.4% increase in the cost of transportation, due to higher international fuel prices (Ramírez, 2011).

Improvements in the country's economic and social areas were backed by an anti-crisis plan proposed by President Mauricio Funes in 2009, who announced the creation of 100,000 jobs by 2011 and in 2010 proposed a law to increase public employee lowest salaries and pensions 45% and 44% and the rest 6% and 8% respectively. In addition, he established the National Consumer Protection Policy to be enacted by the National Consumer Protection System, which, among other objectives, enforced warranties for purchased products and the right to be reimbursed in cash when a product was defective.

## **Retail Industry**

Since the 90s retail business began to experience rapid change. One such change was an increase in the size of commercial establishments, which allowed businesses to offer a greater variety of products in larger volumes (Dobson & Waterson, 1997). The adoption of information technology in logistics and operations management allowed retailers to lower their costs and become more efficient, for example by optimizing inventory management.

Walmart was at the forefront of these innovations, which allowed retailers to be profitable in spite of lowering their average selling prices (Holmes, 2001, Foster, Haltiwanger, & Krizan, 2002).

New layouts, such as hypermarkets became popular as they offered food and traditional products, and other categories, such as appliances, electronics, books, garden products, clothing, shoes, toys and decorations. These categories represented 35% of the floor space which usually totaled more than 2,500 m<sup>2</sup> and included the traditional supermarkets.

FIGURE 1 HERE

Global retail industry sales were US\$3.3 trillion by 2005 and US\$4.3 trillion in 2009 with an annual growth rate of 6.9%. The industry was characterized by its high concentration of players, since the largest 15 retailers accounted for 30% of sales (USDA, 2009).

Globally in 2010, hypermarkets and supermarkets represented 46.4% of the market, followed by convenience stores with 30.7%; specialized food and beverage stores with 15.1%; pharmacies and beauty stores with 1.7%; wholesale stores with membership clubs with 1.6%; other stores represented 4.5% (Datamonitor, 2010). In El Salvador, supermarkets, hypermarkets and convenience stores accounted for 38% of the market, neighborhood stores accounted for 60% and pharmacies 2% (ACNielsen, 2011). Some consumers wanted to reduce the time spent shopping and their costs, being able to buy most items at the same time and place – known as “one-stop shopping”. See Table 2. However, other customers do not always see large supermarkets as the best place to shop, since they only needed some products and shopped quickly – known as “on-the-run”.

TABLE 2 HERE

For customers, switching among supermarkets and other retail outlets does not entail costs. Hence, it is an industry characterized by high rivalry, where efficiency and customer service are important tools for competitiveness.

Another characteristic of the industry is that the largest players have acquired dominant positions in different regions. Walmart is the dominant player in North, Central and Latin America while Carrefour and Tesco are, for example, stronger in Europe.

### **Strategies of Global Retailers**

In the year 2010, the average revenue per customer per visit to a store in the US was US\$26.80 therefore, volume was important to retailers. To attract consumers, retailers deploy different strategies. Walmart, by far the dominant player in the US market, adopted a “low prices everyday” strategy (EDLP), positioning itself as the chain capable to offer prices that were lower than competitors on the vast majority of products, every day. EDLP retailers charge a constant low price every day and do not use promotions with temporary discounts creating price consistency and reducing customers’ uncertainty (Hoch, Drèze & Purk, 1994). Other retailers use a variety of commercial strategies, some offer promotions – known as *Hi Low or Promo pricing* which emphasizes deep and frequent discounts on a smaller set of goods during a determined period of time (Ellickson & Misra, 2008). The Hi Low strategy is characterized by average daily prices higher than those offered by firms deploying EDLP, coupled with frequent promotions which reduce temporarily the price of a limited range of product to the same or below that offered by EDLP retailers. Other retailers positioned themselves as niche players, for example Whole Foods, and others focused on providing superior consumer service. Most retailers strengthened their negotiating position by establishing their own brands known as private label (Datamonitor, 2010).



### *Suppliers*

Large global retailers, such as Walmart and Carrefour, have today much more bargaining power with suppliers than the supermarket chains of the 1970s because they account for a large share of the total volume of food sales (Deloitte, 2011). Suppliers had to adapt, improving their delivery times and accepting discounted prices, which translated into savings for the end consumer, and hence competitiveness for retailers. To avoid stocking problems retailers prefer establishing long term relationships with trusted suppliers. Small retailers, such as specialty or organic shops and neighborhood stores do not have the same negotiation advantage.

### *Consumers*

Another trend that characterized the industry was the increasing sophistication of consumers: through the use of internet website, price comparator websites, and mobile devices, consumers have gained access to an increasing wealth of information about products, prices and the offerings of competing retail chains.

El Salvador's Consumer Protection Agency grouped consumers into three levels; "low-income markets", including 100 municipalities with extreme poverty rates of 40.2% and household incomes averaging US\$201 dollars; "moderate-income markets", including 146 municipalities with extreme poverty rates of 19.4% and household incomes averaging US\$308 dollars; and "high-income markets", including 16 municipalities with extreme poverty rates of 7.6% and household income averaging US\$534 dollars. The Agency found that in urban areas, 63.6% of the population bought fresh and processed food, while 35.7% only bought fresh food and a small proportion (0.7%) only bought processed food. In rural

areas, around 55.4% of the population bought both types, while more bought only fresh (44.3%), and fewer bought only processed (0.4%). See Table 3 and 4.

TABLE 3 and 4 HERE

### **Food Retailers in Central America**

CA's retail market was worth \$44 billion. Informal neighborhood stores and municipal farmers markets represented between 40 and 50% of the total market (CBS News, 2011).

Neighborhood stores are used mainly by low- and middle-income customers, who tend to buy on a daily or weekly base, prefer small packages, a personalized service and no-interest loans to be paid back on the payday and simply controlled by an informal notebook.

Guatemala had approximately 100,000 neighborhood stores, with an average area of 3 m<sup>2</sup> and US\$500 in inventory. El Salvador had 70,000 stores and only 14% managed inventory over US\$500. Nicaragua had around 85,000 of these stores. "Farmer markets" or "city markets" in which farmers or local intermediaries offered fresh produce were also common. With locales measuring 3x3 meters, these markets opened seven days a week, or just on fair days and weekends. Honduras had 16 markets in Tegucigalpa and 17 in San Pedro Sula. San Salvador had seven markets and at least one in each town (USDA 2009, Salinas, 2008).

In El Salvador the largest retail chain belonged to Grupo Calleja, which had 84 supermarkets under two brands, Super Selectos and Selectos Market. It competed face-to-face with Walmart, which owned 78 stores under the name Despensa Familiar (53) and Despensa de Don Juan (25), as well as two hypermarkets called Hiper Paiz. The third largest supermarket chain belonged to Saca Group and had four supermarkets and one hypermarket under the name Europa; Saca Group had 4% of the market. PriceSmart a membership club

had two stores and approximately 8% of the market. Finally, there were around 140 convenience stores, mostly located at gas stations.

### **Calleja Group**

Calleja S.A., which created Super Selectos supermarket brand, was founded in the year 1963 by Daniel Calleja, a manager with previous experience in the Salvadorian retail industry.

In 1969 Grupo Calleja revolutionized the market by opening the first large store in San Salvador, measuring 1,600 m<sup>2</sup>. The success of that store led them to begin developing and expanding nationally, inaugurating supermarkets in the departments of Sonsonate, San Miguel and Santa Ana (Soriano, 2011). Between the 1970s and the 2000s, they grew through acquisitions, buying the local retail chains Todos supermarkets, El Sol, Multimart, La Tapachulteca and Todos por Menos. By the year 2000 they opened 13 new stores called De Todo with an average area of 600 m<sup>2</sup> per locale. These stores offered costumers living in municipalities far from the capital refrigerated and perishable products, such as meat, fruit and vegetables, dairy products, juices and other food products, as well as clothes, cosmetics, toys and some appliances.

Francisco said: “The idea behind De Todo was to get closer to customers, especially those that had a hard time getting to larger cities to make purchases to satisfy their basic needs. The idea we had was for us to go to the customer, not make the customer come to us. Our mission is “to serve customers where they live” (Menjívar, 2011). The CEO of Selectos pointed to the strategic reasons for its success in the Salvadoran market, including being a flexible, and locally focused organization:

*“In order to implement the company’s strategy, we employed a day-to-day sales strategy, making tactical decisions quickly and at the right time after rapid analysis.*

*That had allowed us to retain a certain competitive advantage over our main competitors who many times had to wait for approval from their headquarters in order to make a decision and implement it.”*

By 2000 Grupo Calleja had 69 stores throughout most of the country, except Chalatenango and Morazan regions. With 44 Super Selectos, 13 La Tapa supermarkets, 12 De Todo supermarkets and more than 5,000 employees, they were positioned as the country's leading supermarket chain. In 2003, Walmart's made its intentions to enter the Salvadorian market very clear by showing its interest in buying the Group Calleja, this was the first challenging decision for Calleja's management team: should they sell or compete with one of the largest and most resourceful companies in the world?

They decide to compete with Walmart. They invested in new stores with better layouts, continuing their organic growth in the Salvadorian market (Barrera, 2004). In 2005, Walmart formally entered the Salvadorian market. Calleja Group knew that investing in infrastructure was not enough. They still had logistics problems, such as theft of merchandise at warehouses and stores, inappropriate inventory controls, launched sales that did not satisfy the needs of consumers and did not know which products were most demanded at each store. By 2006, they set up an Integrated Business Management System (IBMS), a Point of Sale (POS) Information System in order to obtain real time data on merchandise sold and a HR scheduling system with an investment of US\$3 million dollars. With a total investment of US \$9 million, they closed the year 2006 with 76 stores and over 55% of the market (Barrera, 2006).

In February 2009 they announced the opening of five new stores despite the fact they had experienced a 7% reduction in sales that month, with respect to the previous year. Carlos Calleja believed they had to continue investing, and he also said that part of their sales strategy was to reduce the price of 400 basic need products (El Diario de Hoy, 2009).

In 2010 the Group maintained their long time Hi-Low pricing strategy, offering a limited variety of products at much more competitive prices for a certain period of time representing savings for customers. “We did follow our pricing strategy during the economic crisis of 2009, even though it meant a temporary drop in our profit margin. We’re a Salvadorian supermarket, so we had to respond to their needs,” stated Carlos Calleja. At that time they had 82 stores and had restructured spaces taking advantage of their specialization in supermarkets; they also decided to change the name of their stores to Super Selectos (67) and create a new space called Selectos Market (15) (El Diario de Hoy, 2010). They differentiated the spaces based on the market served. Super Selectos was focused on urban populations: 20% of their stores served upper and upper-middle classes (AB), 40% the middle-class (C), and the other 40% the middle and lower classes (CD). See Table 5. Selectos Market served smaller towns with low- to middle-income; prices were 5 to 7% lower than at Super Selectos. See Table 5.

#### TABLE 5 HERE

The selection at Super Selectos was much better (35,000 SKU) than Selectos Market (15,000 SKU) which offered only leading brands and the company’s own brand and did not have as much of a variety in perishable foods, such as fruits, vegetables and meats, among others. Super Selectos averaged 1,250 m<sup>2</sup>, while Selectos Market averaged 600 m<sup>2</sup>. However, their personalized customer service was similar and both had air conditioning, provided grocery bags and following their long time Hi-Low pricing strategy but now advertising more than 800 promotions per month. See Figure 2A and 2B. These similarities made customers perceive both types of stores as “Selectos”. This perception had allowed the company to win over new customers quickly when they had entered in informal markets (in other words, where no other supermarkets already existed) and those that had been recently formalized by

the competition, especially in small cities. The Selectos brand was considered the number one supermarket by 63% of the population, while Despensa de Don Juan and Despensa Familiar reported only 17% and 13%, respectively.

#### FIGURE 2A AND 2B HERE

At the beginning of 2011 the company continued to offer competitive prices and a large number of promotions and sales and opened two more Super Selectos. They had a total of 84 stores and close to 52% of the market. In general, their prices were slightly lower than Despensa de Don Juan, but Despensa Familiar was cheaper, offering prices 8 to 10% less than those of Selectos. Between 2004 and 2010 sales had grown 8% to reach US \$551 million. Most of this growth was a result of larger purchases by captive customers, new customers and an increase in the remittances business. They estimated that on average, Salvadorians spent US \$120 per month. See Table 6. Their operational cash flow (EBITDA) over sales was above the 6% average for CA. The best companies in the region had an EBITDA to sales ratio between 8.5 and 10%. As a reference, the New York Stock Exchange's EBITDA for US supermarkets, Whole Foods and Kroger, showed 8% and 3%, respectively.

#### TABLE 6 HERE

Selectos wanted to maintain and even increase its market presence, so the company decided to invest more than US \$40 million in two large projects: the first was to build a center to manufacture food products and manage logistics for perishable products; and the second was to open 12 new stores (López, 2011). They set aside US\$13 million to build an agro-industrial meat and poultry processing plant, fruit and vegetable packaging plant and bakery. They projected productivity would increase by 15% in meat processing, while in

baked goods, they would be able to bake for the entire chain with in-store bakeries. In addition, they would centralize 20 fruit and vegetable suppliers and 20 meat suppliers. Little by little, this would allow them to work with new suppliers, as long as they complied with the company's quality standards and delivery conditions (López, 2011).

This investment would allow them to strengthen their own brands, such as La Rioja cold meats, Dany (groceries), Brisa (toilet paper, paper towels and napkins) and Casablanca (cleaning products). These brands included more than 120 products that had represented between 3% and 4% of sales in 2010. Carlos Calleja stated: "Our brand plays an important role in the country's economy, since we offer customers an excellent quality product at a competitive price" (Azucena, 2009).

Selectos had followed this strategy in 2010 with producers from the northern part of the country. The company bought their products directly, substituting a large part of the US\$24 million that they imported in fruit and vegetables with 100% Salvadorian products. The company is therefore contributing with the development of the country (Choto, 2010). Ricardo Velasquez commented: "Different from other supermarket chains, we are concern of building a relationship that also benefits suppliers, even if that relationship temporarily affects our company's profit margin."

### ***Organizational Structure***

In 2011 the company finished its organizational strengthening process that it had begun implementing five years earlier. This process consisted of restructuring personnel in central offices and at the supermarkets.

Francisco Calleja remained as President. He delegated the administrative and operational management to a Management Committee that was informally staffed by the Vice-president (Carlos Calleja), CEO (Herbert Tobar) and Deputy CEO (Ricardo Velasquez). These men were in charge of evaluating different decision-making issues and defining guidelines for implementation. The President authorized this Committee to approve and finalize investments and define the Group's strategy. However, Francisco continued to be involved in the company. His vast experience was useful, providing advice to the Committee when he thought fit, especially when they were making large investments or major strategic decisions. A new organizational structure was defined. See Figure 3.

FIGURE 3 HERE

In addition to the Management Committee, they had also created an Executive Committee that included the Management Committee members plus the Sales, Purchasing, Financial and Systems Directors. This Committee held weekly meetings and analyzed each department's work and performance. Despite the Committees and organizational restructuring, the company still lacked a formal Board of Directors; they had a board, but it operated informally.

### **Walmart and Walmart Mexico and Central America**

Walmart was founded in 1962 in Rogers, Arkansas, by Sam Walton, who, under the philosophy of "buy it low, stack it high and sell it cheap," started an adventure into the world of retail initially mostly in small towns.



Offering EDLP, the main strategy of Walmart, was not an easy task. It entailed improving its efficiency to ensure that its operational costs were consistently lower than competitors. This was achieved through substantial investments in logistics and information technology.

By 2010 Walmart had 129 distribution centers each serving more than 75 stores. The IT system allowed the company to have real time information on sales, stock, deliveries by store, to manage the size and mix of the products by store based on specific customer characteristics and more. Information was shared with some suppliers to help them plan their deliveries. Walmart paid industry salaries plus an interesting profit sharing system and bonuses that make employees work the extra mile.

In the 90s, Walmart began to move little-by-little up the supply chain and negotiate directly with manufacturers saving between 3-4% of the cost of the goods. It also expanded its private label business with third parties, getting involved in marketing and plant supervision roles. The price of Sam's American Choice detergent was 50% lower than Procter and Gamble's Tide. Walmart's private label products represented around 40% of sales in the US and 10% in CA.

Walmart was also a hard negotiator. In 2002 the company decided to start making direct purchase. Suppliers were limited to accept conditions and prices that Walmart offered. Different from other retailers, the price negotiated included additional costs for suppliers, such as commissions to manage returns, publicity and promotional expenses and the cost of merchandizing which runs from 5% to 15% of the value of the product, and included people to demonstrate the product and give samples in the stores, among other promotions. The company was always looking for new suppliers and became the largest importer of products from China in the 90s.

Walmart's internationalization began in 1991 when the company entered Mexico and opened a Sam's Club in partnership with a domestic Mexican retailer, CIFRA, later acquired

by Walmart. In 1994 Walmart expanded to Canada and then the large emerging markets in South America and Asia.

In 2005 Walmart acquired one-third of the Central American Retail Holding Company (CARHCO). CARHCO had been created as a commercial alliance among Grupo La Fragua (Guatemala), Royal Ahold (Holland) and Corporación Supermercados Unidos (Costa Rica) with one third each. CARHCO owned 254 stores in the five countries, of which 191 were discount stores, 55 were supermarkets, seven were hypermarkets and one was a membership store with an estimated regional market share of 60%. This alliance was expected to generate sales upward of US \$3 billion throughout Central American (El Diario de Hoy, 2011). Eduardo Solorzano, President of the Board of Directors of Wal-Mart Mexico and Central America and General Manager of Wal-Mart Latin America said:

*"I am pleased to end this year with a historic operation. The acquisition of Wal-Mart Central America makes Wal-Mart Mexico an international company, with 1,929 stores operating in six countries, generating annual sales of more than US \$25 billion. It also gives our shareholders additional opportunities for growth in five countries, in addition to the opportunities that exist here in our country."*

TABLE 7 HERE

In 2006 Walmart became the owner of 51 % of the alliance and changed the name from CARHCO to Walmart Central America. In January 2010 Walmart Mexico with 1410 stores and sales of US\$22 billion dollars announced its merger with Walmart Central America paying US\$2.7 billion dollars and acquiring a total of 519 stores, in different formats, but all of which were market leaders in their socio-economic segment; 11 distribution centers; agribusiness operations that provided its stores with perishable goods; and total annual sales of US\$3.3 billion. See Table 8.

TABLE 8 HERE

At the end of 2010 operations in CA were promising, profits were growing faster than sales, sales reached 3.6 billion, production capacity grew 3.7%, the use of private labels increased 5.2% and market shares were 75% in Guatemala, 70% in Costa Rica and approximately 50% in Nicaragua and Honduras. Walmart was not present in Panama yet. See Table 9. Scot Rank, President and CEO of Walmart Mexico and CA, together with his team, made an effort to align synergies between operations in Mexico and CA in order to function as just one company. The company's 2011 strategy had to be implemented based on operations both in Mexico and CA.

#### FIGURE 4 HERE

In El Salvador, since its entrance in 2005, Walmart competed following the same Hi Low pricing strategy used by Selectos. By 2011 managers had committed to growing regional sales from 9.7% annually in 2010 to 12% annually in 2011 and 15% in 2012. To achieve this goal, they had decided to go back to the global EDLP strategy, based on headquarters' operations and culture, and deploy it in all of the markets of Central America, including El Salvador (See Figure 4).

Walmart's management believed that promotions and discounts and merchandizing were no longer necessary when using EDLP. They asked suppliers to incorporate the cost of merchandizing as an additional discount (between 5% and 15%) to the price. According to the company's 2011 expansion plan, Walmart expected to open 80 new stores equaling over 43,000 m<sup>2</sup> in CA.

Strategy execution in CA was a challenge. First, they had to change the way they grew, the redefinition of space was essential the bet was on larger retail spaces. Alberto Ebrard, Executive Vice-president and COO for CA mentioned: "The first strategic change to prepare

the region for accelerated growth will be the redefinition of a multi-format strategy. The first thing was to redefine the correct customer that each store targeted and redirect business strategies based on those customers. For example, even though the Maxi Bodega format is a warehouse, it had much higher prices than discount store formats. We are re-launching the Bodega, lowering prices, improving selection and changing the name to Maxi Palí or Maxi Despensa to put it under our umbrella of discount stores” (Walmart, 2011). See Table 9.

#### TABLE 9 HERE

In addition, Walmart’s brand will be incorporated, starting by changing the names of the hypermarkets to Walmart Supercenters. According to Scot Rank and Alberto Edbrard, aligning the regional strategy based on store type, rather than using the previous structure that had been to aligned by country, allowed them to focus on the specific needs of the customers targeted by each type of store, while permitting operational efficiencies and reduced expenses in order to offer EDLP.

#### ***SUCAP***

Walmart reached US\$3 billion dollars in sales for 2008. Its management and investment capacity terrorized domestic chains who fought to retain a portion of the Central American market, which included more than 35 million customers. That same year, the owners/founders/CEOs of the leading domestic supermarket chains in Central America responded by forming a strategic alliance called SUCAP - Supermercados de Central America y Panamá. It includes nine companies, owning 16 supermarket chains. In 2008 SUCAP owned 278 supermarkets in six countries with US\$2.2 billion in annual sales and

close to 24,000 employees (See Exhibit 1). The alliance started as a broad agreement to cooperate to face competition from foreign retailers. It gradually evolved acquiring a structured organizational form, and a Board of Directors led by President Francisco Calleja of Selectos. The first step was sharing information and ideas about what could be done. Secondly, the retailers began sharing best practices in the areas of logistics, operations and information systems, which they deem essential for their competitiveness (Retana, 2008). Thirdly, they began deploying a joint purchases strategy. Unlike multinational firms, local retailers purchase products for a limited number of stores, and thus have lower bargaining power with suppliers. Through joint purchases the members of SUCAP can achieve better economies of scale, matching, at least at the regional level, the strategy of Walmart. Another related strategy of SUCAP is to support a small group of domestic suppliers with high capabilities providing them with long term contracts at a regional as opposed to national level, and helping them improve their products and fine tune their offerings to each specific market through advisory services. SUCAP is thus working as a mechanism to pursue joint strategies that allow each member to reach a higher scale. Through SUCAP Selectos and the other domestic retailers are sharing their knowledge of their respective markets so that it becomes shared regional knowledge. SUCAP members are adjusting their strategies to exploit at best regional knowledge and additional economies of scale to face larger, and more resourceful multinational competitors. By 2011 SUCAP membership has not changed dramatically but has grown in terms of the number of supermarkets.

TABLE 10 HERE

## 1. Closing

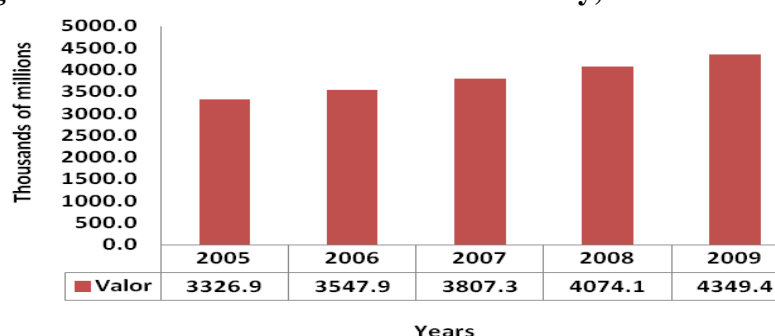
Super Selectos' management team was evaluating what strategy to follow in order to continue as El Salvador's number one supermarket chain. In the last few months their promotional war with Walmart had been the strongest yet. "They're killing us," said Carlos Calleja. However, now Walmart decided to go for EDLP. Carlos and the Executive Committee were asking themselves what should be the next steps in this never ending war.

**Table 1. Economic context**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Latin America and the Caribbean	3.9%	0.4%	0.4%	2.1%	6.0%	4.7%	5.7%	5.8%	4.2%	-1.5%	6.1%	4.6%
Central America	2.2%	1.4%	2.9%	5.7%	4.4%	5.6%	8.1%	7.6%	3.0%	-1.0%	4.4%	4.3%
Costa Rica	1.8%	1.1%	2.9%	6.4%	4.3%	5.9%	8.8%	7.9%	2.7%	-1.0%	4.7%	4.2%
El Salvador	2.2%	1.7%	2.3%	2.3%	1.9%	3.6%	3.9%	3.8%	1.3%	-3.1%	1.4%	2.0%
Guatemala	2.5%	2.4%	3.9%	2.5%	3.2%	3.3%	5.4%	6.3%	3.3%	0.5%	2.9%	4.1%
Honduras	5.7%	2.7%	3.8%	4.5%	6.2%	6.1%	6.6%	6.2%	4.2%	-2.4%	3.7%	3.7%
Nicaragua	4.1%	3.0%	0.8%	2.5%	5.3%	4.3%	4.2%	5.0%	4.0%	-2.2%	3.6%	5.4%
Panamá	2.7%	0.6%	2.2%	4.2%	7.5%	7.2%	8.5%	12.1%	10.1%	3.9%	7.5%	10.8%

Source: International Monetary Fund, World Economic Outlook 2011

**Figure 1. Value of Global Food Retail Industry, Period 2005-2009.**



Source: Elaborated by the author with data from the Global Food Retail Report, Datamonitor, 2010.

**Table 2.Costs Associated with Purchasing vs. Retail Services**

<b>Costs Associated with Purchasing</b>	<b>Retail Services</b>
Time spent buying;	Variety of products to reduce consumer's time spent buying;
Distance between consumer and store;	Accessibility to locale, decreasing the distance between consumer and store;
Change that the consumer has to make if he or she cannot find the exact brand and size of what he or she is looking for;	Ambience at locale to lower psychological costs of purchasing;
Information costs in terms of products to be purchased;	Availability of information and probability of getting the desired product at the right time, which lowers costs of change that consumers have to make if they cannot find the exact brand and size they want.
Storage of bought products; Psychological costs of buying, issues with noise, cleanliness, etc.	

Source: Lira (2005).

**Table 3.Income Segments in El Salvador**

<b>Segments</b>	<b># Municipalities</b>	<b>Poverty Rate</b>	<b>Average Household Income</b>
Low market income	100	40.20%	US\$201
Moderate-income	146	19.40%	US\$308
High-income	16	7.60%	US\$534

Source: El Salvador's Consumer Protection Agency

**Table 4.Classification of Market Segment by Income**

<b>Category</b>	<b>Income US\$</b>
A	Greater than or equal to 3500
B	2500 to 3499
C+	1500 to 2499
C	1000 to 1499
C-	600 to 999
D	250 to 599

Source: Grupo Calleja

**Table 5.Types of Super Selectos**

Type	Logo	Observations
<b>Super Selectos</b> Complete selection, personalized service, serves urban areas with middle to high purchasing power, open 14 hours.		69 stores National 81% of sales in 2010
<b>Super Selectos</b> Limited selection, personalized service, experience, serves smaller populations with low to middle consumption, open 12 hours, on average		15 stores 19% of sales in 2010

Source: Grupo Calleja, Commercial Presentation, 2011.

**Table 6.Annual Sales of Super Selectos**

Year	Net Sales (millions US\$)
2006	403
2007	440
2008	446
2009	514
2010	551

Source: Grupo Calleja

**Table 7.Purchase Price to Acquire Walmart Central America**

Type of Payment	Thousands of US\$
Stock payments	2,146,643.78
Cash payments	110,835.81
Contingent liability	439,671.07
<b>Total Purchase Price</b>	<b>2,697,150.66</b>

Source: Walmart Mexico (2011)

**Table 8.Financial Statements of Walmart Mexico and Central America**

	Mexico			Central America			Consolidated		
	2010	2009	% var.	2010	2009	% var.	2010	2009	% var.
Net Sales (millions of US\$)	23,458.3	21,380.7	9.7	3,648.9	3,414.8	6.9	26,548.5	21,380.7	24.2
Gross margin	22.0	21.7	11.6	22.2	22.1	7.4	22.1	21.7	26.4
General expenses	13.5	13.4	9.9	17.4	17.3	7.5	14.0	13.4	29.4
Profit	8.6	8.2	14.3	4.8	4.8	7.2	8.1	8.2	21.4
Operational cash flow (EBITDA)	10.4	10.0	14.2	6.5	6.5	7.5	9.9	10.0	23.0

Source: Walmart México (2010) “Información Anual Financiera”



Figure 2A. Promotions from Super Selectos and Selectos Market

**Oferta** (Offer) banner includes:

- KKK: \$3.45
- Austral: \$12.35
- Dany: \$1.50
- Evax: \$2.35
- 20% descuento (20% discount)

**Ahorra y llévate Gratis** (Save and take for free) banner includes:

- Pacifico Azul: \$3.19
- Evax: \$2.35
- 20% descuento (20% discount)

**¡Date un aire con tus Tickets!** (Give yourself some air with your tickets!) banner includes:

- Fans: \$14.00
- Rincón Verde Selectos
- ¡refrescantes ventiladores!

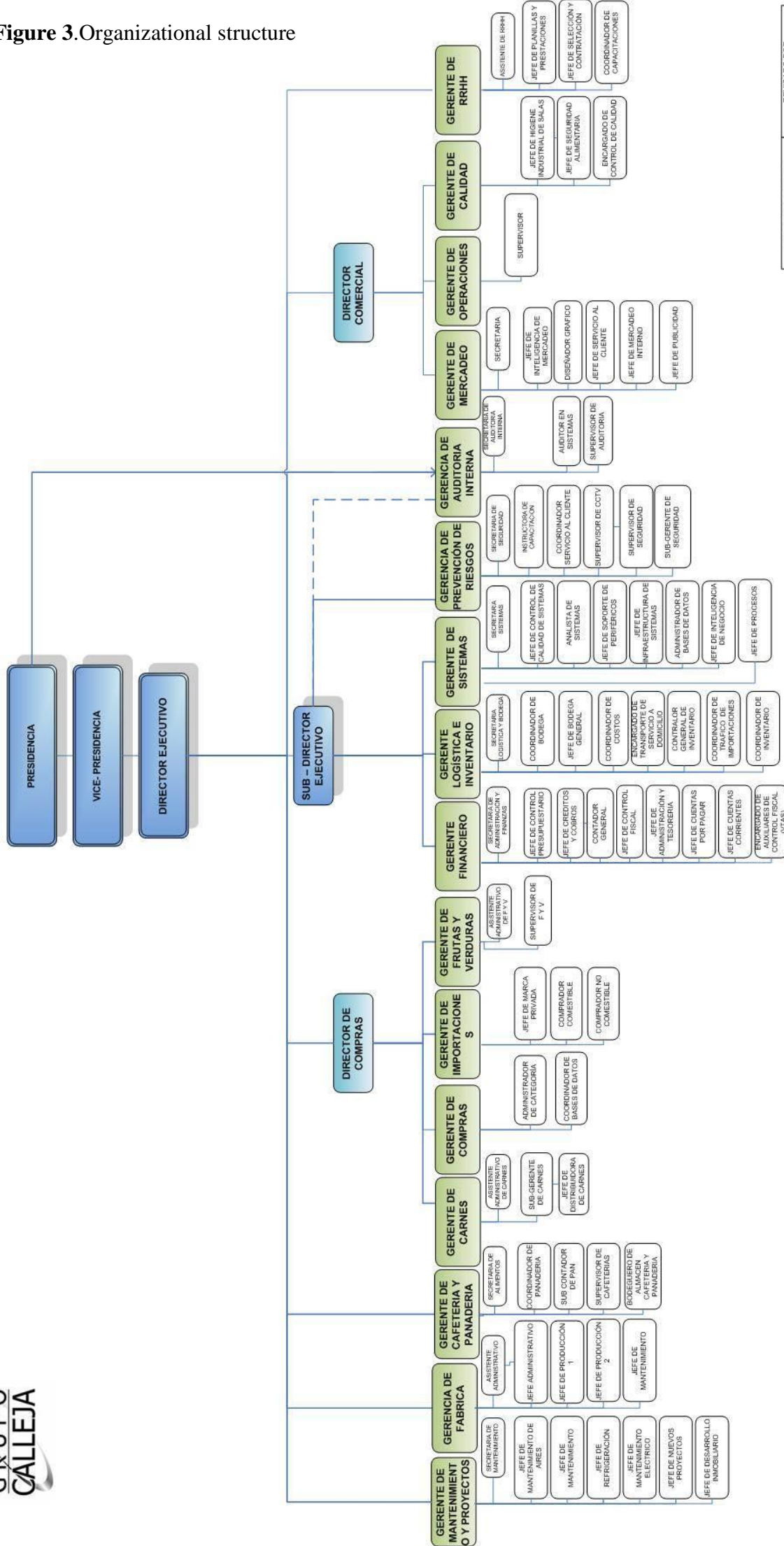
Figure 2B. Promotions from Super Selectos and Selectos Market

**Súper Precio** (Super Price) banner includes:

- Dany: \$1.20
- NIDO: \$13.99
- Evax: \$2.35
- 20% descuento (20% discount)
- 5x1
- 3.90
- 1.10
- 0.53
- 0.86
- 0.21
- 1.48
- 8.91
- 1.05
- 1.00
- 1.34
- 1.74
- 3.66
- 1.00
- 1.34
- 1.74
- 3.66
- 1.00
- 1.34
- 1.74
- 3.66

Figure 3. Organizational structure

# ORGANIGRAMA GRUPO CALLEJA 2011 (Nivel Ejecutivo)












ELABORADO POR DEPTO DE PROCESOS Ing. Mayra Iñando	REVISADO POR DIRECCION EJECUTIVA SUBDIRECCION EJECUTIVA Lic. Herbert Tobar Lic. Ricardo Velásquez
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FECHA DE EMISION Fecha de Actualización	08/ 2011	1
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Figure 4. Walmart Everyday Low Prices



Table 9. Types of Stores Walmart Mexico and Central America

Type	Logo	Observations
<b>Warehouses and Discount Stores</b> Inexpensive stores that offer basic merchandise, food and household goods. Value proposal: price	     	1,718 stores 457 cities 38.6 % of sales in 2010
<b>Hypermarkets</b> Hypermarkets that offer wider selection of merchandise, from groceries and perishable items to clothing and general merchandise. Value proposal: price and selection		230 stores 84 cities 27.0 % of sales in 2010
<b>Price Club</b> Wholesale price clubs with membership, focused on businesses and consumers who buy the best price. Value proposal: price leader, volume, new and different merchandise	 	128 stores 75 cities 22.7 % of sales in 2010

<b>Supermarkets</b> Supermarkets located in residential areas. Value proposal: quality, convenience and service		184 stores 44 cities 7.0 % of sales in 2010
<b>Department</b> Clothing stores that offer the best fashion for the whole family at the best price. Value proposal: fashion with value, price and quality		94 stores 34 cities 3.0 % of sales in 2010
<b>Restaurants</b> Restaurant chain, leader in cafeteria-restaurant industry. Includes Mexican food with El Portón restaurants. Value proposal: convenience, flavor and quality		365 stores 65 cities 1.7 % of sales in 2010
<b>Bank</b> Commercial bank for clients of Walmart Mexico stores, basic products and financial services. Value proposal: convenience, simple and price		263 stores 31 cities 910,000 account holders in Mexico

Source: Walmart Mexico and Central America

**Table 10 . SUCAP membership by country in 2011 and number of stores**

<b>Country</b>	<b>Name of supermarket chain</b>	<b>Number of stores</b>
Costa Rica	Turribasicos	3
	Peri	19
	Auto Mercado	14
	Jumbo	6
	Super Compro	32
El Salvador	Super Selectos	68
	Selectos Market	16
	Dollar Market	2
Guatemala	La Torre	27
	Econo Super	18
Honduras	La Colonia	20
Nicaragua	La Colonia	16
Panama	Mega Depot	2
	El Machetazo	12
	Super 99	34

Source: Elaborated by the author with data from SUMMA (2012)

## **Exhibit 1**

### **Hypermarkets and Supermarkets in Central America by 2011**

In Guatemala Walmart had seven hypermarkets, 166 supermarkets under different names and two membership clubs stores. The second chain was Unisuper, with 44 supermarkets and one discount warehouse. PriceSmart had three stores. There were also over 70 convenience stores that were mostly located at gas stations.

In Honduras, Walmart had seven hypermarkets and 49 supermarkets under different names. The next largest retailer was La Colonia supermarket with 17 stores. PriceSmart had two stores. Also, there were different local competitors in each Department and there were around 400 convenience stores, mostly located at gas stations.

In Nicaragua Walmart owned seven supermarkets under La Unión brand focused in the high and middle-high income segments and 53 supermarkets under Palí brand for lower and middle income segments. La Colonia owned by the Mantica family, which was not related to the Honduran chain, had 15 supermarkets and, discount warehouses and one hypermarket. PriceSmart had one store, and there were many convenience stores operated in the country.

Costa Rica had 333 supermarkets in 2010. Walmart had 180 stores including supermarkets and hypermarkets under the names Mas x Menos, Maxi Bodega, Palí and Hipermas. Corporacion Megasuper owned 82 stores and Grupo Gessa 59 the latter had several brands and had acquired small locales or chains in rural parts of the country since 2004 as part of its expansion strategy. Automercado competed with 12 stores focused on the middle to upper segments and PriceSmart had five stores. AM-PM supermarkets had 20 stores and nine convenience stores. Finally, there were also convenience stores located at gas stations.

In Panama, Super 99 had 33 stores owned by the Martinelli family. Grupo Rey owned the second largest chain and had a total of 18 supermarkets by 2010. PriceSmart had four stores. Convenience stores were opened at Esso gas stations currently 17, but planned to open more stores in their 45 gas stations. Shell had a total of nine stores under the name Select and Texaco had 15 years of experience managing the StarMart convenience stores.



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